Franchises Homework
(Unit 10)

By Omar Omar Y10A

1. **Explain in your own words how a franchise business is set up.**

A franchise business is set up after a pilot operation or trial is carried out to see if this idea was commercially viable. If this trial is profitable then the company sets up a training scheme for franchisees based on what has been learnt in the trial. When the arrangement are complete then the company advertises for a franchisee. Many candidates answer, and they are put through a careful scrutiny test to see if they have the necessary qualities. The company must be very selective; the wrong choice could permanently mar the company's reputation. After the franchisees are chosen, then they are trained to run the business. Then they are given the exclusive rights to use the brand name in exchange for royalties which would continue throughout the companies' marriage.

2. **What are the main advantages and disadvantages for a franchisee?**

There are numerous advantages and disadvantages for a franchisee. For example, they have a bigger stab at success than small businesses as this product/business will already have been tried before and succeeded. In other words, it is already more established and has a target customer base that will buy or make use of the product.
Since a potential franchisee will be working with an already established name, then they will have no difficulties in raising money from banks because there will be less of a risk. The business had succeeded before and turning into a franchise would make it even more profitable, so it was no longer a gamble like it was with sole traders.
On a sour note, there are many disadvantages for a franchisee. They will have less independence than sole proprietors and almost no creative control. In a way they may not be able to expand their business without loosing credit for it. Basically, a franchisee is tied to the franchiser. He or she will not be able to sell of the business without the latter's agreement, and may not always be able to renew the deal. Also, they would have to keep on paying royalties to the franchiser for use of the brand name. They could end up being charged more if they have to buy supplies from the franchiser (instead of buying them locally for a cheaper price).

3. **How are the profits of a franchisee business distributed?**

The profits of a franchisee business are distributed amongst several things. They would usually pay royalties and percentages to the franchiser (this is the fee they charge for letting the franchisee use their brand). The money could also go into expanding the business (e.g. opening more branches). This is usually the most popular option.

4. **Who controls a franchise business?**

The franchise is usually controlled by the franchiser. They use their name, their products, their marketing strategy and many of the major decisions are answered by them. For example if a Disney Animals Soft Toy Collection is launched in McDonalds in the UK, then the series would also be sold in franchisee outlets around the world.

5. **Apart from the initial investment, what is a franchisee's main source of finance?**

The franchisee's main source of finance comes from the savings and profits they make.

6. **What are the main differences between a sole trader and a franchisee?**

The main difference between a sole trader and a franchisee is that a sole trader has his or her own brand name and logo, while a franchisee is just another version or copy of the real thing. As an example, a private business might by the locally-known Wimpy's Burgers, and a franchise would be the world-known McDonalds. Both serve the same products and both target the same customers, but Wimpy's is just locally-owned. Usually franchisees have less control over their work and have to answer back to the head franchise office. But sole traders are entirely in charge of what they do. However sole traders may find it harder to get the initial set-up fund while a franchisee would get it with ease.